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	N	EA6, CPS/CH	INFO	ORPA/112 Res/ASCR	2	5	
ACTION #	F	INFO				3	6
O	EP3/662 CA3 DER3 CR6/CCR, SIA/IC, NIO/E,						
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TOR: 260721Z AUG 77

R 260605Z AUG 77
 FM USLO PEKING
 TO RUEHC/SECSTATE WASHDC 8548
 INFO RUMJDH/AMCONSUL HONG KONG 5175
 RUKOQS/AMEMBASSY SINGAPORE 377
 RUEHTP/AMEMBASSY TAIPEI 1232
 RUEHKO/AMEMBASSY TOKYO 2452
 BT

*260605Z AUG 77
 RUEHC/SECSTATE WASHDC 8548
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CONFIDENTIAL SECTION 1 OF 2 PEKING 01878

E.O. 11652: GDS

TAGS: ECON, PINT, CH

SUBJECT: ECONOMIC POLICY AND THE 11TH PARTY CONGRESS
 1. SUMMARY: STATEMENTS ON ECONOMIC POLICY AT THE
 11TH PARTY CONGRESS SUPPORT PREVIOUSLY SET ECONOMIC
 POLICIES OF THE HUA GOVERNMENT--NOTABLY PRIORITY
 ATTENTION TO AGRICULTURE, ACCELERATED DEVELOPMENT OF
 BASIC INDUSTRIES, STRENGTHENING OF SCIENTIFIC AND
 TECHNOLOGICAL TRAINING, REDUCTION OF ADMINISTRATIVE
 COSTS AND IMPROVED LIVING STANDARDS ON THE BASIS
 OF INCREASED PRODUCTION. IT IS UNCLEAR WHAT, IF
 ANY, CHANGES IN ECONOMIC POLICIES WILL FOLLOW THE
 OFFICIAL END OF THE CULTURAL REVOLUTION; ALTHOUGH
 SORELTY NEEDED CHANGES ARE IN STORE IN EDUCATION.

WAGE POLICY MAY BE ONE OF
 THE MOST DIFFICULT ECONOMIC ISSUES FACING THE
 HUA GOVERNMENT. END SUMMARY.

2. WHILE IT PROCUCED NO NEW DEPARTURES IN
 ECONOMIC POLICY, THE 11TH CCP CONGRESS
 PUBLICLY SANCTIONED THE MAIN THEMES OF THE
 PREVIOUSLY ANNOUNCED POLICY OF THE HUA
 GOVERNMENT AND WENT SO FAR AS TO WRITE THE
"FOUR MODERNIZATIONS" INTO THE PARTY CONSTITUTION.
THE CONGRESS ALSO PROCLAIMED THE END OF THE
CULTURAL REVOLUTION, BUT THIS WAS NOT PUBLICLY
 ASSOCIATED WITH ANY CHANGES IN ECONOMIC POLICY.
 ECONOMICS GOT CONSIDERABLE SPACE IN
 CONGRESS DOCUMENTS AND IN THE AUGUST 22 JOINT
 EDITORIAL. MAJOR ECONOMIC LINES OF THE HUA
 GOVERNMENT WERE REITERATED--PRIORITY ATTENTION
 TO AGRICULTURE, ACCELERATED DEVELOPMENT

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OF BASIC INDUSTRY, STRENGTHENING OF SCIENTIFIC AND TECHNICAL TRAINING, REDUCTION OF NON-PROMPTIVE PERSONNEL AND IMPROVED LIVING STANDARDS FOLLOWING INCREASED PRODUCTION.

3. DESPITE THE FAMILIARITY OF THESE THEMES, CERTAIN ASPECTS OF THEIR PRESENTATION ARE NOTEWORTHY:

--MODERNIZATION AND MILITARY POWER. HUA'S POLITICAL REPORT CLEARLY INDICATED THAT MILITARY MODERNIZATION DEPENDS ON ECONOMIC DEVELOPMENT.

THE JOINT EDITORIAL REITERATED THIS POINT.

--RAISING LIVING STANDARDS. THE COMMITMENT TO RAISING LIVING STANDARDS ON THE BASIS OF PRODUCTION WAS MADE CLEAR, BUT CONGRESS DOCUMENTS ARE DEVOID OF HINTS ABOUT HOW THIS WILL BE DONE. HUA'S REPORT ENDORSES THE LONG-STANDING SOCIALIST PRINCIPLE "TO EACH ACCORDING TO HIS WORK" BUT IMPLIES THAT THIS SHOULD LEAD TO ENHANCED "COLLECTIVE" RATHER THAN INDIVIDUAL WELFARE.

--STRENGTHENING SCIENCE AND TECHNOLOGY, SCIENTIFIC RESEARCH WAS TERMED "VITAL" TO ECONOMIC CONSTRUCTION AND THE GANG OF FOUR'S "SABOTAGE" WAS CONDEMNED. THE CREATION OF A CORPS OF SCIENTISTS TO BE A LEADING AGENT IN ECONOMIC CONSTRUCTION IS TO BE TACKLED IN EARNEST," AND A NATIONAL CONFERENCE ON SCIENTIFIC WORK IS TO BE CONVENED "AT AN APPROPRIATE TIME."

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 TO RUEHC/SECSTATE WASHDC 8549
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C O N F I D E N T I A L SECTION 2 OF 2 PEKING 01878

4. CONFERENCE DOCUMENTS PAID ALLEGIANCE TO

MAO'S LINE AND CONTAINED SOME STRONGLY-WORDED
ADMONISHMENTS ABOUT SAFEGUARDING SOCIALIST

PUBLIC OWNERSHIP AGAINST ATTACKS BY URBAN AND
 RURAL CAPITALIST ROADERS, AT THE SAME TIME,
 A MORE MODERATE AND PRAGMATIC APPROACH WAS
 TAKEN TO CURRENT PROBLEMS. THE PRE-EMINENT
 NEAR-TERM (1980) OBJECTIVES REMAIN BUILDING
 "AN INDEPENDENT AND FAIRLY COMPREHENSIVE
 INDUSTRIAL AND ECONOMIC SYSTEM," BASIC
 MECHANIZATION OF AGRICULTURE, AND CREATION OF
 THE INDUSTRIAL CONDITIONS NECESSARY FOR FURTHER
 ECONOMIC EXPANSION DURING THE SIXTH FIVE-YEAR
 PLAN (1981-1985). HUA REPEATED EARLIER CALLS
 TO TURN ONE-THIRD OF THE COUNTRY'S ENTERPRISES
 INTO ADVANCED TACHING ENTERPRISES AND A THIRD
 OF THE COUNTIES INTO ADVANCED TACHAI

COUNTIES DURING THE CURRENT FIVE-YEAR PLAN PERIOD.
 HUA MADE SPECIAL MENTION OF THE NEED TO ACHIEVE
 "CONSIDERABLE INCREASES" IN AGRICULTURAL AND
 SIDE-LINE PRODUCTION. REALIZATION OF THE MAOIST
 OBJECTIVE OF ELIMINATING THE "THREE GREAT
 DIFFERENCES" (I.E., BETWEEN TOWN AND COUNTRY,
 BETWEEN AGRICULTURE AND INDUSTRY AND BETWEEN
 PHYSICAL AND MENTAL LABOR WAS RELEGATED TO THE
 DISTANT FUTURE.

5. REVIEWING ECONOMIC PERFORMANCE SO FAR
 THIS YEAR, HUA STATED THAT SINCE MARCH
 "INDUSTRIAL PRODUCTON, THE VOLUME OF
 TRANSPORT, STATE PURCHASES AND SALES OF
 COMMODITIES AND STATE REVENUES HAVE ALL GONE

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UP," SETTING NEW RECORDS, AND CLAIMED THAT "GROSS VALUE OF INDUSTRIAL OUTPUT FOR JUNE SURPASSED THE HIGHEST MONTHLY LEVEL OF THE PAST;" IN AGRICULTURE, "LOSSES HAVE BEEN CONSIDERABLY REDUCED AND A FAIRLY GOOD HARVEST OF SUMMER GRAIN GATHERED IN MANY AREAS." (NOTE: NCNA AUGUST 24 REPORTED THAT GVI0 IN JULY SHOWED A 22.4 PERCENT INCREASE OVER JULY OF LAST YEAR AND SURPASSED THE PREVIOUS PEAK FOR THAT MONTH. NO JUNE-JULY COMPARISON WAS MADE, HOWEVER.)

6 COMMENT: THE IMPLICATIONS FOR ECONOMIC POLICY AND CONSTRUCTION OF THE OFFICIAL ENDING OF THE CULTURAL REVOLUTION ARE NOT YET CLEAR. AT A MINIMUM, IT WILL MAKE EASIER THE ON-GOING REVERSAL OF THE POLICIES WHICH HAVE HELD BACK DEVELOPMENT OF QUALIFIED SCIENTISTS AND TECHNICIANS SINCE THE MID-SIXTIES. IT MAY EVENTUALLY MAKE EASIER THE ESTABLISHMENT OF MORE EFFECTIVE MATERIAL AND NON-MATERIAL INCENTIVES IN BOTH THE INDUSTRIAL AND AGRICULTURAL SECTORS.

7. IT IS CLEAR THAT THE REGIME APPRECIATES THE ECONOMIC PROBLEMS IT FACES. HUA'S REMARKS ON ECONOMIC PERFORMANCE SO FAR THIS YEAR STRONGLY SUGGEST SLOW RECOVERY IN INDUSTRY AND CONTINUING SHORTFALLS IN AGRICULTURE. AUGUST RED FLAG ARTICLES INDICATE THAT A CRACKDOWN ON FISCAL LASSITUDE AT THE ENTERPRISE LEVEL IS IN PROGRESS-- SPURRED, NO DOUBT, BY SERIOUS STATE REVENUE SHORTFALLS LAST YEAR AND PERHAPS THIS YEAR AS WELL. UNDER THESE CIRCUMSTANCES, THE QUESTION OF WAGE ADJUSTMENTS MUST RANK AS ONE OF THE MOST DIFFICULT FACING THE NEW POLITBURO. MATERIAL INCENTIVES IN THE FORM OF INDIVIDUAL PRODUCTION BONUSES WOULD FIT OBJECTIVE ECONOMIC REQUIREMENTS BUT WOULD BE A DIFFICULT STEP POLITICALLY. A GENERAL WAGE INCREASE FOR LOWER WAGE-EARNING CLASSES WOULD BE POLITICALLY MORE PALATABLE, BUT PROBABLY MUCH MORE EXPENSIVE.

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HUA'S GOVERNMENT WILL HAVE TO FACE THIS
ISSUE BEFORE THE CONFERENCE ON WAGES SCHEDULED
FOR THE FIRST HALF OF NEXT YEAR.
WOODCOCK

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